

ACTUARIAL ANALYSIS OF THE UNPAID CLAIMS LIABILITIES AND RESERVES AS OF JUNE 30, 2013 MARICOPA COUNTY SELF-FUNDED EMPLOYEE BENEFITS PROGRAM



OCTOBER 21, 2013

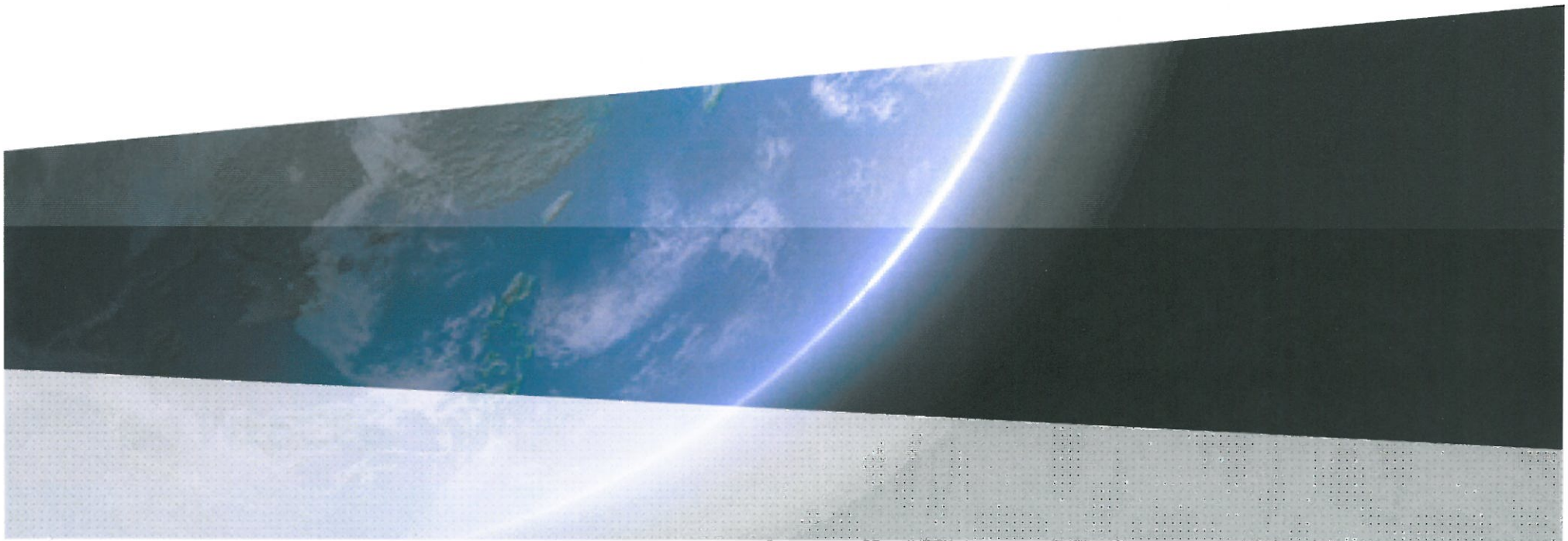
Presenter

Ann Marie Janusek, ASA, MAAA

Unpaid Claims Liabilities and Reserves as of June 30, 2013

Today's Presentation

- Purpose of today's meeting:
 - Review unpaid claims liabilities and reserves as of June 30, 2013.
 - Review current reserve philosophy.
 - Endorsement by Board of Trustees.



Unpaid Claims Liabilities and Reserves as of June 30, 2013

Overview

- Mercer was retained by Maricopa County to value self-funded unpaid claims liabilities and reserves as of June 30, 2013, and potential self-insured risks beyond unpaid claims liabilities.
- The Plan provides medical, prescription drug, dental, vision, behavioral health, and short-term disability (STD) coverage for approximately 11,000 employees and three retirees:
 - For this coverage, the unpaid claims liability and claims reserve represents costs that are already incurred by means of health care services that have already been provided or disablements that have already occurred, but for which the Plan has not yet paid.

Unpaid Claims Liabilities and Reserves as of June 30, 2013

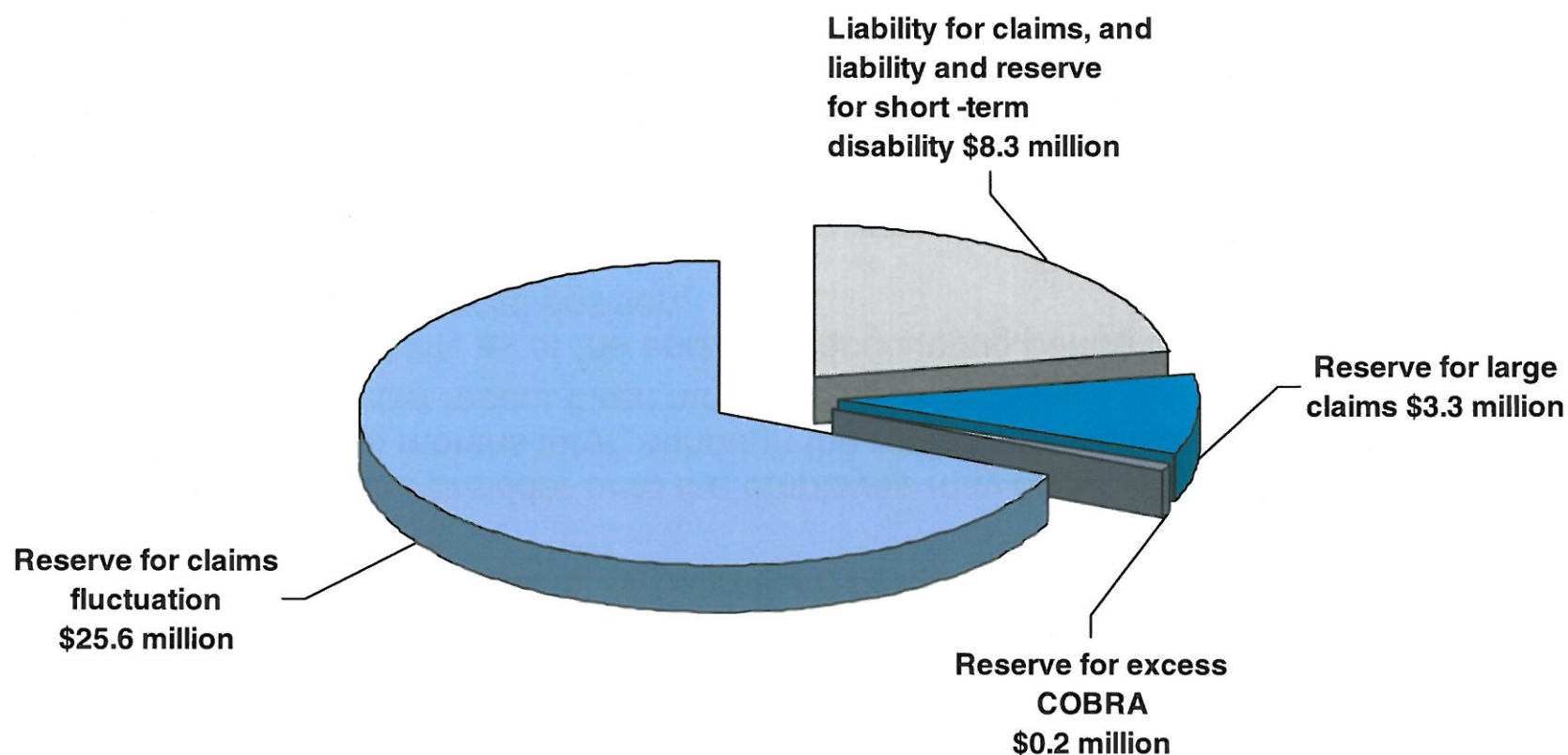
Overview (cont'd)

- Potential self-insured risks beyond the unpaid claims liabilities include:
 - Reserves for claims fluctuation.
 - Reserves for large claims.
 - Reserves for excess Consolidated Omnibus Budget Reconciliation Act (COBRA) expense.
 - Reserves to cover liability for unpaid claims adjustment administrative expense (if any).
 - Premium deficiency reserve (if any).
 - Reserve for performance incentives (if any).

Unpaid Claims Liabilities and Reserves as of June 30, 2013

Liabilities and Needed Reserves

Total liabilities and reserves as of June 30, 2013 of \$37.4 million



Unpaid Claims Liabilities and Reserves as of June 30, 2013

Liability for Claims and Liability/Reserve for STD Benefits

- Liability for claims incurred but not paid :
 - The Plan incurs a liability when a covered employee or dependent receives medical, prescription drug, dental, vision, or behavioral health care that is covered under the terms of the Plan.
 - Actual payment to the provider or to the employee may occur within a few weeks or as much as 12 or more months later, although the majority of claims unpaid at any point in time are from the most recent three months.
 - The unpaid claim liability as of the end of an accounting period is essential to accurately measure the Plan's financial position.

Coverage	Incurred But Not Paid
Liability for medical claims (0.88 months of claims)	\$6,995,779
Liability for prescription drug claims	\$ 0
Liability for dental claims (1.47 months of claims)	\$ 466,041
Liability for vision claims (1.09 months of claims)	\$ 161,597
Liability for behavioral health claims (2.43 months of claims)	\$ 293,591
Total	\$7,917,008

Unpaid Claims Liabilities and Reserves as of June 30, 2013

Liability for Claims and Liability/Reserve for STD Benefits (cont'd)

- Liability and reserve for STD benefits:
 - STD provides benefits up through the 26th week following disability.
 - Benefits commence after a three week elimination period.
 - Cost for STD is paid entirely by employees; no employer contribution.
 - Liabilities, benefits the Plan owes but has not paid as of the valuation date, include IBNR, RBUC, and due and unpaid claims.
 - Reserves to cover benefits the Plan does not yet owe as of the valuation date include the present value of amounts not yet due on claims.

	Dollars
Claims incurred but not reported (IBNR)	\$ 40,115
Reported but unpaid claims (RBUC)	\$ 66,237
Due and unpaid claims	\$ 0
Present value of amounts not yet due	\$263,586
Total STD claim liability and reserve (2.61 months of claims)	\$369,938

Unpaid Claims Liabilities and Reserves as of June 30, 2013

Reserve for Claims Fluctuation

- Based on a risk-based capital (RBC) approach of provisions set forth by insurance regulating bodies to maintain reasonable solvency levels.
- Takes into account specific information related to the County's types of coverage offered, claim levels, funding sources, and Plans' provider contracts.
- In Mercer's opinion, it is appropriate for the County to target 250% of the company action level (CAL) RBC underwriting risk component for the underwriting risk reserve:
 - Over a recent 5-year period, slightly more than half of the health insurance companies had surplus levels of 250% or more of total RBC.
 - The County is no longer purchasing specific stop-loss insurance.
 - All medical benefit options, in order to comply with the Affordable Care Act, have an **unlimited** dollar benefit, effective July 1, 2011, for the County.

Unpaid Claims Liabilities and Reserves as of June 30, 2013

Reserve for Claims Fluctuation (cont'd)

- No requirement to hold such a reserve, so holding this reserve is a County management decision:
 - Result of RBC calculation is \$25,612,280 at 250% CAL level (equivalent to 22.3% of paid claims) and \$10,244,912 at 100% CAL level (8.9% of paid claims).
 - Claim fluctuation reserve of 25% of annual claims is a traditional conservative amount of surplus level to support group health benefits.



Unpaid Claims Liabilities and Reserves as of June 30, 2013

Reserve for Large Claims

- Effective July 1, 2011, the County eliminated its specific stop-loss insurance.
- Mercer is recommending the County establish a reserve to provide a means of smoothing recognition of the costs of large claims over periods of more than a year.
- Established a large claims reserve that is based on a portion of the funds not spent on stop-loss premiums.

	Based on a \$400,000 Attachment Point
1. Per-employee-per-month premium rate that would have been paid	\$ 24.42
2. July 2012 through June 2013 employee months	135,001
3. Initial reserve level = 1 x 2	\$3,296,724

Unpaid Claims Liabilities and Reserves as of June 30, 2013

Reserve for Excess COBRA Expense

- When former employees elect to continue their benefits under COBRA, they pay 102% of the total premium.
- Depending on the circumstance, the COBRA continuation can extend up to 36 months.
- This amount is not expected to cover the costs of the benefits because, on average, those who elect a COBRA extension of benefits have about 50% higher than average claims.
- The COBRA reserve is the expected shortfall of premium compared to expenses for all those who are on the COBRA extension of benefits as of the valuation date.
- As of June 30, 2013, the reserve for excess COBRA expense is \$245,625.

Unpaid Claims Liabilities and Reserves as of June 30, 2013 Net Amount of Available Assets in Excess of Plan's Liability Requirements and Reserve Needs

- As of June 30, 2013, there were approximately \$64.3 million in total assets available (\$8.6 million of which is for STD, an employee-pay-all program) to cover the Plan's liability requirements and reserve needs.
- This amount accounts for restricted assets and fully covers the liabilities for unpaid claims, the reserves for the excess COBRA expense, and claims fluctuation.
- The recommended Plan reserve of \$36.9 million, at June 30, 2013, is 23% less than the \$47.6 million the County is holding in net assets available (excluding STD) as of June 30, 2013.

Unpaid Claims Liabilities and Reserves as of June 30, 2013 Net Amount of Available Assets in Excess of Plan's Liability Requirements and Reserve Needs (cont'd)

- The \$10.8 million excess amount (excluding STD) could be retained by the Plan for further services or portions used to reduce future premium rate increases by charging premium rates slightly below expected costs or used as a premium holiday.
- The available fund balance for STD was reduced to \$1.9 million, as \$6.2 million was used as a premium rebate to employees.



Unpaid Claims Liabilities and Reserves as of June 30, 2013

Net Amount of Available Assets in Excess of Plan's Liability Requirements and Reserve Needs (cont'd)

	STD	All Other	Total
1. Available assets as of 6/30/2013	\$8,643,869	\$55,679,671	\$64,323,540
2. Accrued reserve for wellness	\$ 0	\$ 3,820,637	\$ 3,820,637
3. Accrued liabilities as of 6/30/2013	\$ 0	\$ 4,225,302	\$ 4,225,302
4. Other current liabilities as of 6/30/2013	\$6,178,953	\$ 0	\$ 6,178,953
5. Restricted reserves (Health Select) as of 6/30/2013	\$ 0	\$ 0	\$ 0
6. Net amount of assets available to cover Plan's liability requirements and reserve needs (1-2-3-4-5)	\$2,464,916	\$47,633,732	\$50,098,648
7. Unpaid claims liabilities and reserves as of 6/30/2013, including reserve for claim fluctuation of 250% of the net underwriting risk component of RBC	\$ 589,459	\$36,852,117	\$37,441,575
8. Net amount of assets, in excess of reserves, available to cover Plan's liability requirements and reserve needs (6-7)	\$1,875,457	\$10,781,615	\$12,657,073

QUESTIONS?





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